

## Sec. 1-7

Uniform System of Accounts and Reports, each nontransport entity conducting an activity which is not related to the air carrier's transport activities and each transport-related activity or group of activities qualifying as a nontransport venture pursuant to paragraph (b) of this section, whether or not formally organized within a distinct organizational unit, shall be treated as a separately operated organizational division; except that provisions of this paragraph and paragraph (b) shall not apply to leasing activities.

(b) As a general rule, any activity or group of activities comprising a transport-related service provided for in transport-related revenue and expense accounts 09 through 18 shall be considered a separate nontransport venture under circumstances in which either: (1) A separate corporate or legal entity has been established to perform such services, (2) the aggregate annual revenue rate, as determined in section 2-1(d), during either of the prior two years exceeds the greater of \$1 million per annum or one percent of the air carrier's total annual transport revenues, or (3) the aggregate annual expense rate, as determined in section 2-1(d), during either of the prior two years exceeds the greater of \$1 million or one percent of the carrier's total annual operating expenses: *Provided*, That revenues and expenses from in-flight sales, and interchange sales shall be considered related to air transportation and accounted for accordingly, regardless of the revenue or expense standard set forth above.

(c) The records for each required accounting entity shall be maintained with sufficient particularity to permit a determination that the requirements of section 2-1 have been complied with.

[ER-755, 37 FR 19726, Sept. 21, 1972, as amended by ER-841, 39 FR 11994, Apr. 2, 1974; ER-1022, 42 FR 46495, Sept. 15, 1977; ER-1027, 42 FR 60127, Nov. 25, 1977; 60 FR 66723, Dec. 26, 1995]

## Sec. 1-7 Interpretation of accounts.

To the end that uniform accounting may be maintained, questions involving matters of accounting significance which are not clearly provided for should be submitted to the Director, Office of Airline Information, K-25, Bu-

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reau of Transportation Statistics, for explanation, interpretation, or resolution.

[Amdt. 241-58, 54 FR 5591, Feb. 6, 1989, as amended at 60 FR 66723, Dec. 26, 1995]

## Sec. 1-8 Address for reports and correspondence.

All reports required under this part and related correspondence shall be addressed to: Office of Airline Information, K-25, Room 4125, U.S. Department of Transportation, 400 Seventh St., SW., Washington, DC 20590.

[Amdt. 241-58, 54 FR 5592, Feb. 6, 1989, as amended at 60 FR 66723, Dec. 26, 1995]

## SECTION 2—GENERAL ACCOUNTING POLICIES

## Sec. 2.1 Generally accepted accounting principles.

(a) The accounting provisions contained in this part are based on generally accepted accounting principles (GAAP). Persons subject to this part are authorized to implement, as prescribed by the Financial Accounting Standards Board, newly issued GAAP pronouncements until and unless the Director, Office of Airline Information (OAI), issues an Accounting Directive making an initial determination that implementation of a new pronouncement would adversely affect the Department's programs.

(b) The Director, OAI, shall review each newly issued GAAP pronouncement to determine its affect on the Department's regulatory programs. If adopting a specific change in GAAP would adversely affect the Department's programs, the Director will issue the results of the review in the form of an Accounting Directive. The directive will state the reasons why the particular change should not be incorporated in the uniform system of accounts and contain accounting guidance for maintaining the integrity of the Department's air carrier accounting provisions.

(c) Objections and comments relating to the Department's decision not to implement a change in generally accepted principles may be addressed to Director, Office of Airline Information, K-25, Room 4125, U.S. Department of Transportation, 400 Seventh St., SW.,

## Office of the Secretary, DOT

Washington, DC 20590. If significant objections are raised urging adoption of a particular GAAP pronouncement, the Department will institute a rule-making.

[Amdt. 241-58, 54 FR 5592, Feb. 6, 1989, as amended at 60 FR 66723, Dec. 26, 1995]

### **Sec. 2-2 Basis of allocation between entities.**

(a) The provisions of this section shall apply to each person controlling an air carrier, each person controlled by the air carrier, as well as each transport entity and organizational division of the air carrier for which separate records must be maintained pursuant to section 1-6.

(b) Each transaction shall be recorded and placed initially under accounting controls of the particular air transport entity or organizational division of the air carrier or member of an affiliated group to which directly traceable. If applicable to two or more accounting entities, a proration shall be made from the entity of original recording to other participating entities on such basis that the statements of financial condition and operating results of each entity are comparable to those of distinct legal entities. The allocations involved shall include all debits and credits associated with each entity.

(c) For purposes of this section, investments by the air carrier in resources or facilities used in common by the regulated air carrier and those transport-related revenue services defined as separate nontransport ventures under section 1-6(b) shall not be allocated between such entities but shall be reflected in total in the appropriate accounts of the entity which predominately uses those investments. Where the entity of predominate use is a nontransport venture, the air carrier shall reflect the investment in account 1510.3, Advances to Associated Companies.

(d) For purposes of this Uniform System of Accounts and Reports, all revenues shall be assigned to or apportioned between accounting entities on bases which will fully recognize the services provided by each entity, and expenses, or costs, shall be apportioned between accounting entities on such

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bases as will result: (1) With respect to transport-related services, in the assignment thereto of proportionate direct overheads, as well as direct labor and materials, of the applicable expense functions prescribed by this system of accounts and reports, and (2) with respect to separate ventures, in the assignment thereto of proportional general and administrative overheads as well as the direct overheads, labor, and materials.

[ER-755, 37 FR 19726, Sept. 21, 1972, as amended by ER-841, 39 FR 11994, Apr. 2, 1974; ER-1401, 50 FR 238, Jan. 3, 1985. Redesignated and further amended by Amdt. 241-58, 54 FR 5592, Feb. 6, 1989]

### **Sec. 2-3 Distribution of revenues and expenses within entities.**

(a) Revenues and expenses attributable to a single natural objective account or functional classification shall be assigned accordingly.

(b) Revenue and expense items which are common to two or more natural objective accounts shall be recorded in the objective accounts to which they predominantly relate.

(c) Expense items contributing to more than one function shall be charged to the general overhead functions to which applicable except that where only incidental contribution is made to more than a single function an item may be included in the function to which primarily related, provided such function is not distorted by including an aggregation of amounts applicable to other functions. When assignment of expense items on the basis of the primary activity to which related does not in the aggregate result in a fair presentation of the expenses applicable to each function, apportionment shall be made between functions based upon a study of the contribution to each function during a representative period.

[ER-755, 37 FR 19726, Sept. 21, 1972. Redesignated by Amdt. 241-58, 54 FR 5592, Feb. 6, 1989]

### **Sec. 2-4 Accounting period.**

(a) The accounting year of each air carrier subject to this Uniform System of Accounts shall be the calendar year unless otherwise approved by the BTS.